No. 83-443

IN THE

Supreme Court of the United States

OCTOBER TERM 1983

U.S.S. POLYPROPYLENE DIVISION, A DIVISION OF UNITED STATES STEEL CORPORATION,
Petitioner,

v.

STUDIENGESELLSCHAFT KOHLE m.b.H.,
Respondent.

REPLY BRIEF TO BRIEF IN OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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Petitioner submits this reply brief under Supreme Court Rule 22.5 in response to Respondent's Brief In Opposition To Petition For A Writ Of Certiorari.

I. The Legal Obligation of a Patent Owner to Disclose License Terms Has Not Been Settled and Is Not State Contract Law — No Contract Terms Are In Dispute.

The terms of the license agreement between Petitioner and Respondent are not in dispute. Respondent's attempt to categorize this case as one of state contract law is submitted to be a diversion to avoid the real issues presented by Petitioner.

The primary issue presented on this petition is whether a patent owner has a legal obligation and duty to disclose the subsequent license terms when there is a most favored licensee

clause, or, stated differently, can the patent owner intentionally conceal such information from its licensees? In this case, there was intentional concealment by the patent owner, as held by the courts below.

The cases relied upon by the courts below and cited by Respondent do not deal with the issue of a patent owner's concealment. That issue has not been settled by this Court or by any other court.

Such intentional concealment is the root cause of this entire litigation between Petitioner and Respondent. That issue should be resolved by this Court as a matter of federal policy to reduce controversy and litigation between patent owners and licensees, not to mention to maintain a high standard of candor and fair dealing between licensors and licensees.

II. Federal Law Should Preempt State Law Where the Legal Issue Is the Misuse of Patent Rights Granted Under Federal Law.

To paraphrase *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257 (1979), federal law *preempts* state law when the state law stands as an "obstacle to the accomplishment and execution of the full purposes and objectives of Congress."

Congress, acting under the United States Constitution, has provided for the granting of patents to provide an exclusive seventeen year right. As interpreted by this Court and numerous courts below, when a patent owner misuses its patent or otherwise attempts to frustrate the purposes and objectives of Congress, federal policy preempts state law. Such misuse deprives the patent owner of the rights which were granted. "The patent is a privilege. . . . which is conditioned by a public purpose." *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); *United States* v. *Line Material Co.*, 333 U.S. 287 (1948).

Contrary to Respondent's diversionary approach, this case does not require interpretation of the MFL clause by this Court. Concealment by a patent owner who is operating under a federally granted right constitutes just as much of an "obstacle to the accomplishment and execution of the full purposes and objectives of Congress", as the concealment of material information from the patent examiner when obtaining the patent. [*See Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965)], or provisions to estop challenges to the validity of a patent [*See Lear, Inc.* v. *Adkins*, 395 U.S. 653 (1969)].

Contrary to Respondent's contentions, this case does not involve any question with respect to negotiating and drafting an MFL clause. Nor does it involve any question as to the scope bargained for or agreed in the MFL clause. Nor does it involve an interpretation of the MFL clause. Instead, we are here concerned with the specific policy of the patent law dealing with federal patent rights.

The legal relations which they affect must be deemed governed by federal law having its source in the patent statutes, 35 U.S. 1 et seq. and the U.S. Constitution. *Unarco Indus. Inc.* v. *Kelley Co.*, 465 F.2d 1303 (7th Cir. 1972) following *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173 (1942). *Cf. Gamewell Mfg. Inc.* v. *HVAC Supply, Inc.*, No. 82-1533, Slip. op. (4th Cir. Aug. 9, 1983); otherwise we will have a different rule of law depending upon the happenstance locations of the parties rather than upon the nature of the federal property rights involved.

In the *Unarco Indus.* case, this Court's decision in *Sola Electric Co.* v. *Jefferson*, 317 U.S. 173 (1942) was perceptively quoted as follows:

> ". . . The doctrine of that case [Erie R. Co. v. Tompkins, 304 U.S. 64 (1938)] is inapplicable to those areas of judicial decision within which the policy of the law is so

> dominated by the sweep of federal statutes that legal relations which they affect must be deemed governed by federal law having its source in those statutes rather than by local law."
>
> "This monopoly conferred by federal statute as well as the policy perpetuating this monopoly, so affects the licensing of patents, and the policy behind such licensing is so intertwined with the sweep of federal statutes, that any question with respect thereto must be governed by federal law."

State law does not and should not govern the licensing of patents and most especially concealment and other misuse by patent owners.

CONCLUSION

Respondents are incorrect in casting this case as one of settled state contract law. State contract law is not involved. Only legal issues relating to federal policy have been presented by Petitioner. Therefore, federal law in a very important and unsettled area is presented. Favorable consideration of the Petition is therefore urged to permit the application of a uniform rule to a federal right.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify on this 7th day of October, 1983, three copies of this Reply Brief to Brief In Opposition To Petition For A Writ Of Certiorari were mailed, via first class mail, postage prepaid, to Sprung, Horn, Kramer & Woods, 600 Third Avenue, New York, New York 10016. I further certify that all parties requiring to be served have been served.

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